

Intended Use/Scope of Work

There are many misunderstandings about the concept of intended use. The most common is the notion that intended use is irrelevant. It is claimed that an appraiser only needs to know the purpose of the assignment and all that it entails in regard to the type of value, subject property and effective date to provide a solution to the assignment problem. Those who hold this view fail to fully understand how relevancy is driven by intended use.

It is true that one could develop an opinion of market value on a given property as of a given date without knowing the client's intended use. But one could not know whether that opinion was adequate or appropriate to the client's intended use. The following illustrations show how the client's intended use changes the extent of the appraiser's development and reporting process.

Illustration #1

A home owner calls an appraiser and asks for a value on his home to see if he has any equity. The owner is content to know the market value of his home in the form of a range of value. He does not want to pay for a written report or the time involved in a property inspection. The owner knows his lender will order an appraisal when he applies for the loan.

Illustration #2

The next week the lender calls the appraiser for a "driveby appraisal" on the same property in connection with a second trust deed. The lender is happy with the owner's credit rating and plans to keep the loan in their portfolio. The lender sees very little risk in the transaction and seeks the appraiser's opinion of the property's market value based on an exterior inspection only.

Illustration #3

Several months later an attorney for the wife asks the appraiser for an appraisal on the same property because the owners are getting a divorce. The attorney needs the appraiser to conduct a thorough inspection of the home and to provide an indepth study of the sales of comparable homes in the market area making sure to verify the sales information with the buyers, real estate agents and the county recorder's office. The attorney wants the appraiser's report to contain a complete and exhaustive description of the subject property, the sale comparables, and of the analysis leading to the appraiser's opinion.

In each of the these illustrations there is an assignment, which involves the same subject property and the same purpose. What changed, however, was the intended use and time

frame of the assignment. There are two important points to be made here; first, the purpose of the assignment established “what kind” of information and analysis to include in the development and reporting process. Second the client’s intended use provided the context for knowing “how much” information and analysis to include in each of these processes.

Ignoring the intended use in the development or reporting process contributes to errors of excess or defect. Providing the attorney with the same development process and report that the appraiser prepared for the owner or the lender, is a deficiency. Providing the home owner the same development process and report required of the attorney is excessive. In either case, the appraiser failed to provide results that are “meaningful” relative to their intended use.

These types of errors have different manifestations and are treated differently in USPAP. Errors in judgment due to deficiencies in the development process are either a matter of bias or scope of work inadequacies and are explicitly prohibited in USPAP.

An appraiser must not allow a client’s objectives or intended use to cause an analysis to be biased.

An appraiser must not allow assignment conditions or other factors to limit the extent of research or analysis to such a degree that the resulting opinions and conclusions developed in an assignment are not credible in the context of the intended use of the appraisal.

Errors in judgment due to excess are not prohibited as USPAP addresses the minimum standards for professional practice. This should not imply that errors of excess are not significant to professional practice. The most common manifestation of this error is the notion that USPAP requires the same level of development regardless of the intended use. The “one size fits all” notion fails to recognize the relationship between intended use and scope of work and that an appraiser’s minimum level of due diligence is relative to intended use.

In performing appraisal services, an appraiser must be certain that the gathering of factual information is conducted in a manner that is sufficiently diligent, given the scope of work as identified according to Standards Rule 1-2(f), to ensure that the data that would have a material or significant effect on the resulting opinions or conclusions are identified and, where necessary, analyzed. Further, an appraiser must use sufficient care in analyzing such data to avoid errors that would significantly affect his or her opinions and conclusions.

What also accompanies “the one size fits all” notion is the perception that USPAP prohibits appraisers from providing services that rely on lesser forms of development. There are many appraisers who believe that it is a violation of USPAP to provide a market value opinion under the conditions in the first illustration above. There are also appraisers who believe that USPAP prohibits “drive-by” appraisals as requested in the second illustration.

Still another variation of this notion is the belief that an appraiser can provide the services requested in the illustrations so long as the same value opinion is developed in each assignment. This is truly an unrealistic concept since the assignment conditions in each illustration do not allow or require the same discovery or use of factual information. The information that is adequate or "significant" in the first illustration is less than what is adequate in the second or the third illustrations, given their intended uses. There is no reason for supposing that the opinions that result from the three assignments will be identical.

Another common misunderstanding about intended use is the belief that reliance on the client's intended use is a form of bias or advocacy. This view fails to make the distinction between understanding a client's objective and facilitating the achievement of the client's objective. It is true that USPAP prohibits appraisers from developing biased analysis or opinions. But, it is false to believe that the reason for knowing the client's intended use is to facilitate its achievement.

When one abstracts from the particulars of these illustrations, it is true that the scope of work in the third illustration is the most comprehensive. Yet, when the scope of work in each illustration is viewed relative to their intended use, they are equally relevant and credible within that context.

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